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SUBJECT: NICARAGUA: FINLAND CUTS BUDGET SUPPORT

SUMMARY

¶1. (U) On October 22, the Embassy of Finland announced an end to its \$2.5 million annual assistance to the national budget of Nicaragua. Finland is now the fourth country to withdraw direct budget assistance, after Germany, Sweden, and Great Britain. The Budget Support Group (BSG), a group of five countries including Finland, plus the European Union, the World Bank, and the Inter-American Development Bank, provides direct contributions to the general budget of Nicaragua. To date, the BSG has withdrawn a total of \$21 million from the national budget. In 2007 The IMF, under its three year Poverty Reduction and Growth Facility Program (PRGF) approved a \$120.4 million arrangement in support of the government's economic programs; so far about \$47 million has been disbursed. End Summary.

FINLAND TO END BUDGET SUPPORT ASSISTANCE

¶2. (U) The Embassy of Finland announced in a letter sent on October 22 its decision to discontinue the disbursement of \$2.5 million to the general budget of Nicaragua. A member of the Nicaraguan Budget Support Group since 2005, Finland has donated approximately \$85 million to Nicaragua during the last five years. So far in 2008, Finnish assistance to Nicaragua has totaled \$16.5 million, including \$2.5 million destined for the national budget which now will not be disbursed. According to the letter, the reason for the decision was dissatisfaction with the fact that the GON has not published the final version of its 2008-2012 Human Development National Plan. Other reasons for Finnish discontent include the failure to account for Venezuelan funds flowing into Nicaragua, the decision of the Supreme Electoral Council to prohibit two political parties from competing in 2008 municipal elections, and government harassment of local NGOs. The Embassy of Finland indicated that it would find another way to channel these funds. For now, Finland's 2009 budget still includes \$19 million for foreign assistance to Nicaragua.

GET IN LINE

¶3. (U) Finland is not the first country to withdraw budget support from Nicaragua since Daniel Ortega became President. In August 2007, Sweden announced it would end its foreign assistance to Nicaragua, as a result of its decision to shift focus on countries in Africa and Eastern Europe. Observers in Nicaragua speculated that the true reason behind the Swedish decision was Ortega's prohibition of therapeutic abortion, an assertion denied by the Swedish Ambassador. Germany announced in April of 2008 its suspension of budget support in Nicaragua. The United Kingdom's Department for International Development (DFID) announced that it plans to close its representational offices in Nicaragua in April of 2009, and withdraw \$4 million destined for the 2009 national budget. According to DFID, London took the decision to invest in more economically vulnerable regions such as Africa, Asia, and the Middle East. DFID

will continue its cooperation with Nicaragua through indirect assistance projects. The IMF supports the Nicaraguan budget through its three year \$120 million Poverty Reduction and Growth Facility Program (PRGF) arrangement in support of the government's economic programs. To date, about \$47 million has been disbursed. Future disbursements are contingent on satisfactory IMF reviews, the last of which was canceled for safety concerns following street protests and disturbances in Nicaragua in the wake of municipal election fraud allegations.

THE BUDGET SUPPORT GROUP

¶4. (U) The Budget Support Group is composed of Germany, Norway, the Netherlands, the United Kingdom, Sweden, Switzerland, the European Commission, the World Bank, and the Inter-American Development Bank.

This group entered into a "Joint Financing Agreement" with the GON in May 2005 to support the efforts of the GON to attain sustainable economic growth and a reduction of poverty in the long run. Budget support is a direct contribution to the general budget using the accounting and procurement systems of the GON. These funds, which are not destined to a particular use, but to the total budget itself, allow the GON to allocate its resources according to its priorities. The Budget Support Group created a Performance Assessment Matrix (PAM), which includes a number of indicators that are used for monitoring performance. The matrix includes five sectors: macroeconomics, public finance, the productive sector, social sector and governance. The cooperation of the Budget Support Group is supposedly contingent upon accomplishments demonstrated in the PAM.

LOCAL REACTION

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¶5. (U) Opposition politicians from the Constitutional Liberal Party (PLC) said the Finnish action will cause other European countries to follow suit. In their view, the blame lies with mismanagement and a policy of confrontation on the part of President Ortega. In a defensive statement, FSLN Vice Minister of Foreign Affairs Manuel Coronel Kautz argued that the Finnish decision would not greatly impact Nicaragua's development, and expressed doubt that other countries would follow. Kautz warned that no country should "interfere in another country's internal policies."

COMMENT

¶6. (SBU) The Finnish decision reflects negatively on Nicaragua as a worthy partner for donor assistance, especially in light of accusations of wholesale fraud surrounding municipal elections. Of particular concern is that most budget support typically goes to poverty reduction programs. Nicaragua now faces a 2009 budget (not yet approved by the National Assembly) with \$21 million less in its coffers than what it thought it would have. The reaction so far on the part of the FSLN to Finland's decision appears to be indifference. Many assume that Venezuela will step up to the plate as caretaker of the Bolivarian Alternative for the Americas (ALBA), which Nicaragua joined immediately upon President Ortega's ascension to office. This may not be easy for Caracas, having promised development projects to countries around the world when oil prices were rising to \$100 per barrel.